

**Confidential Private Placement Memorandum**

**Webley Systems, Inc.**

- Board of Directors:** So long as at least 25% of the initially issued Series C Preferred Stock remains outstanding, the holders of Series C Preferred Stock shall have the right to elect one director to the Company's board.
- Anti-dilution Provisions:** The conversion rate of the Offering is subject to adjustment, on a weighted average dilution basis, following the closing of the Offering in the event of any issuances of Common Stock or options, warrants or securities convertible into Common Stock at a price per share of Common Stock less than the conversion price of the Offering and the conversion rate will be subject to adjustment at any time as the result of any subdivision, stock split, combination of shares or recapitalization. Anti-dilution protection shall not apply to issuances pursuant to the Company's stock option plan, issuances in connection with the two pending acquisitions or issuances pursuant to the stock option plans of the acquired companies.
- Preemptive Rights:** The Series C Preferred Stock shall have a pro rata right of first offer with respect to future sales by the Company of shares of its capital stock. This right shall terminate upon completion of a Qualified Public Offering.
- Demand Registration:** At any time after an initial public offering of Common Stock or the third anniversary of the Offering closing date, whichever occurs first (but not within six months of the effective date of a registration statement of the Company), investors holding a majority of the Common Stock issued or issuable upon conversion of the Series C Preferred Stock issued pursuant to the Offering may require the Company to register at least \_\_\_% of the Common Stock issuable upon conversion of such Series C Preferred Stock, provided that the aggregate proceeds from the shares registered is expected to exceed \$\_\_\_ million. The Company will be required to effect no more than two such registrations.
- Form S-3 Registration:** If and after the Company is qualified to register shares on Form S-3, investors holding a majority of the Common Stock issued or issuable upon conversion of the Series C Preferred Stock issued pursuant to the Offering may require the Company to register at least \_\_\_% of the Common Stock issuable upon conversion of such Series C Preferred Stock on Form S-3. The Company will be required to effect no more than one such registration per annum.
- Company Registration:** The investors shall be entitled to "piggyback" registration rights on certain registrations of the Company, subject to the right of the underwriters to reduce the number of shares proposed to be registered in view of market conditions.
- Expenses:** The Company shall bear all reasonable expenses (exclusive of underwriting discounts and commissions and fees of more than one counsel for all selling shareholders) of all registrations.
- Purchase Agreement:** A mutually acceptable, definitive Purchase Agreement will be prepared, which will include:
- (i) Representations and warranties;
  - (ii) Reports and access covenants;
  - (iii) Indemnifications; and
  - (iv) Conditions to closing.

Salomon Smith Barney

15

**CONFIDENTIAL PH 00441**

**A 02422**

**Confidential Private Placement Memorandum****Webley Systems, Inc.****INDUSTRY OVERVIEW**

The Unified Communications market is strategically positioned at the point of convergence among three high growth communications markets: messaging, telephony and the Internet. Unified Communications incorporates non real-time communications (email, fax, voicemail) with real-time communications functionality including two-way call and notification services, voice control and switching, and speech recognition as well as a broad range of device and media independent enhanced communications. While the market for Unified Communications is in its early stages, a number of growth drivers exist that will drive future demand for these services.

**Unified Communications vs. Unified Messaging**

Unified messaging is the delivery of voicemail, email, and fax through common interfaces that allow users to manage the growing volume of messages. Through common interfaces, users can access various message types — voicemail, email, fax, etc. — independent of the means of access. The user can choose the most convenient means of access depending upon the situation, whether in the office, on a mobile phone, or at a public payphone. There are many providers at varying product levels and strategies who currently offer some type of "unified messaging". These consist of legacy offerings like traditional mailbox and voicemail services up to intermediate products that offer simple unified messaging functionality such as "Find Me, Follow Me" capability for voice messages, fax forwarding or Internet notification. (See Appendix: Features of Unified Messaging Solutions)

In contrast to unified messaging, which offers only the integration of non real-time communications (email, fax, voicemail), Unified Communications incorporates these features and integrates real-time communications functionality such as connectivity, voice control and switching, and speech recognition, among others. Although unified messaging is an important component of Unified Communications, the capacity for real-time communications is what sets Unified Communications apart. A complete Unified Communications solution will integrate various devices, interfaces, and functionalities, allowing users to shift between real-time and non real-time communications and manage various aspects of origination, delivery, access and reception using a voice interface as well as text interface.

**Market Growth and Demographics**

*Demand for Unified Communications is being driven by three underlying growth drivers:*

- The growth of disparate communications platforms that exist today — email, voicemail, fax — and their lack of compatibility and interoperability. For example, many voicemail systems still do not allow forwarding outside a closed enterprise system environment.
- Service providers need to support their declining revenue density (both voice and data) by offering easily monetizable, enhanced services, particularly those which can take advantage of network upgrades and new technologies such as VoIP (Voice over IP), which greatly decreases the transmission costs of completing a connection or message delivery.
- The proliferation of communications access devices used and carried by individuals. This includes both tethered and wireless devices and has resulted in the necessity for individuals to have a multiplicity of identifiers — email addresses, phone numbers, fax numbers — both at home and work, in order to manage their growing communications and messaging needs. As users are seeking ways to simplify their increasingly complex communications needs, ease-of-use has become a leading user requirement for Unified Communications products.

Salomon Smith Barney

16

**CONFIDENTIAL PH 00442****A 02423**

Confidential Private Placement Memorandum

Webley Systems, Inc.

The demand for Unified Communications services and products is expected to grow rapidly over the next several years. Recently, Ovum Research Group forecasted direct unified messaging revenues of \$2.2 billion in 2002. International Data Corporation ("IDC") predicts that the total number of U.S. subscribers for Unified Communications will grow from less than 2 million users in the United States in 1999 to 28.4 million by 2004, a compound annual growth rate of 71.4%. This is projected to generate in excess of \$5.7 billion in retail service revenue for business and consumer end users. This number does not include revenue derived from wholesale sales, hosting and enterprise solutions deployed for in-house systems. Additionally, these figures provide projections for revenue generated only from flat-rate monthly recurring charges for service subscriptions.

The growth in Unified Communications is a direct result of the long-term growth in wireline, and recent explosive growth in wireless access, in combination with the ongoing growth in messaging by individuals as they utilize multiple devices and have increasingly advanced communication needs. The growth in voicemail, email and fax, which are component elements of Unified Communications, highlight these communication growth trends.

*Voicemail*

The voicemail market is growing by more than 30% annually. In North America, nearly 100% of large and medium sized businesses have voicemail while nearly 75% of residential households have answering machines. Wireless voicemail penetration, while currently at just 10%, is rapidly increasing.

*Email*

Email is the most widely adopted Internet application, ranging from a personal messaging tool to a strategic business tool. Worldwide installed email boxes are now estimated at nearly 400 million and growing at 40% annually. IDC projects that business email boxes in the U.S. will increase 13.5% annually to 166 million in 2003. Consumer email boxes in the U.S. are projected to grow 10% annually to 121 million over the same period.

*Fax*

The fax machine is a valuable tool for communication for businesses and individuals. Faxing continues to grow due to decreasing telephone rates and the availability of software that allows faxes to be sent from personal computers over the IP network, greatly decreasing the transmission costs.

*Wireless Access*

Worldwide use of mobile communications is growing rapidly as mobile devices become more broadly available and adopted, and as cellular and other mobile communications services become more widely accessible and affordable. IDC estimates that there were approximately 481 million digital wireless subscribers worldwide at the end of 1999 and that this number will grow to approximately 1.7 billion by the end of 2005, of which 891 million are estimated to be wireless data users. IDC projects domestic revenues associated with these wireless subscribers to increase from \$45 billion in 1999 to \$89 billion in 2004.

*Next Generation IP Networks*

With continuing developments in the architecture of the telephony and Internet fabric, various message media, including text and voice, are currently converging. The current migration from the circuit-switched legacy PSTN and wireless networks to a packet-switched architecture allows for easier integration of these various message media into a single, uniform type of IP packet. Over a common IP-based architecture, communications channels become interchangeable as consumers can send the same message through email, voicemail and fax, thus allowing service providers and enterprises to deliver new enhanced services, at greatly reduced costs.

Salomon Smith Barney

17

CONFIDENTIAL PH 00443

A 02424

**Confidential Private Placement Memorandum**

**Webley Systems, Inc.**

**Need for Cost Effective, Outsourced Solutions**

Whether it is an individual avoiding the cost of maintaining a fax machine, answering machine and dedicated fax line or a large corporation attempting to cost effectively manage expanding and increasingly sophisticated communications systems, individuals and businesses alike are outsourcing their messaging infrastructure as communications security is improved. In addition, businesses often find it difficult to implement state-of-the-art technology in their own infrastructure, and individuals with the expertise to maintain a sophisticated messaging system can be scarce and costly to hire, train and keep. As a result, Webley believes that organizations seeking to lower their costs and to reduce the amount of time and labor they invest in communications infrastructure and support systems, such as messaging systems, will look to advanced solutions and services provided by third parties to maintain competitiveness in the increasingly complex communications marketplace.

---

Salomon Smith Barney

18

**CONFIDENTIAL PH 00444**

**A 02425**

Confidential Private Placement Memorandum

Webley Systems, Inc.

**BUSINESS**

Webley Systems, Inc. is a leading provider of speech-enabled Unified Communications products and offers an advanced virtual assistant service through a proprietary, carrier-grade solution. Unified Communications combines non real-time unified messaging (email, voicemail, fax) with real-time voice provisioning and control. Webley's products deliver users a superior communications and messaging tool with one of the most complete set of features among any of the Unified Communications solutions currently available. Webley's technology differentiates itself by integrating Internet and telephony-based communications onto a single speech-enabled platform that can be provisioned to a user's existing telephone number. Additionally, the Company has a next generation platform that is architected purely on SIP (Session Initiation Protocol) and VoiceXML in the final stage of development, which represents a considerable technology advance beyond comparable products available in the market. In IP-based network environments, Webley will have the ability through this platform to be the "always on" dial tone that provisions service on the primary line. Users of Webley's Unified Communications platform will be able to simply pick up the telephone and respond to Webley's request "What would you like to do?"™

Webley's advanced virtual personal communications service allows Unified Communications systems to manage a user's inbound and outbound calling, messaging, conferencing and paging requirements. The Company's feature rich products can page, find, follow or not disturb a user, and accept and deliver all of a user's messages via voicemail, email, fax and pager over the phone or on the Web using the user's *local* number or personal 800-number. In addition, the user is able to manage his or her communications functions through a secure companion website. Using stored contact data and speech recognition technology, Webley allows the user to call, page or email any one of 2,000 contacts by speaking only the contact name. Webley can also deliver voicemail via streaming audio (MP3) anywhere on the Internet with virtually no delays and allow users to listen to, reply to and send email over the phone. Webley employs advanced speech-enabled technology to control all communications functions and to voice browse the Internet, send audio email and receive a variety of audio or text notifications and alerts from individually tailored information sources.

Webley's target market is large and early adoption is expected to occur first among users where there are substantial economic advantages such as power users (business people, information workers and customer-facing staff) and business travelers. Productivity gains and added personal convenience are expected to motivate later adoption with markets such as small businesses and residential segments. The Company's Unified Communications products are sold to communications service providers (carriers) and large enterprise customers, as well as to small businesses and residential consumers. Webley markets its products under its own brand name as well as on a private label basis. Webley's private label marketing efforts are focused on providing turnkey solutions to strategic distribution partnerships including IXC's, ILEC's, CLEC's, wireless service providers and IP-based convergent service telecom companies as well as to large enterprise customers.

Webley's direct marketing efforts target the enterprise and end-users in the SOHO and residential markets as well as certain targeted vertical market segments. The pending acquisition of EffectNet Inc. ("EffectNet"), a third party ASP provider of Webley products under the CommuniKate™ brand name as well as private label offerings, will, when completed, give Webley greater control over its marketing efforts and will substantially increase Webley's enterprise presence and capabilities. Additionally, Webley is currently using the direct-to-subscriber channel in certain mass consumer markets, such as Chicago, as well as selected vertical marketplaces such as Webley M.D. and the Company's next vertical market product offerings, Webley Esquire and Webley Realtor.

Ease-of-use is the leading user requirement for Unified Communications products. Webley believes that it has the industry's most effective and user-friendly Unified Communications system available today. One of Webley's key competitive advantages is its superior application of market leading natural speech recognition and text-to-speech technology that allows users to easily access Webley features using simple voice commands through any communications device. Using advanced natural speech recognition, virtual assistant services are accessed via

Salomon Smith Barney

CONFIDENTIAL PH 00445

**Confidential Private Placement Memorandum****Webley Systems, Inc.**

telephone and enable users to retrieve, sort, prioritize and reply to any message type at any time from anywhere. Webley's technology currently provides for over 200 core features or commands that, when coupled with the utility of the natural speech interface, become over 1,000 dynamic feature sets. Presently, the providers of Webley's speech recognition software have the capability to offer approximately 20 languages. Such an extensive feature set allows Webley to quickly and economically add, modify or limit feature sets to meet broad-based user demand or the customized needs of particular user groups such as targeted vertical markets.

The Company believes its products are unique in supporting either integrated or separate message stores to manage users' various messaging requirements, as well as core next generation networking and programming standards such as SIP (Session Initiation Protocol) and VoiceXML. In an IP-phone-based environment, Webley can become the "always on" dial tone and actually provision the primary line connection. For example, when the user picks up the phone, the user will hear "What would you like to do?"<sup>TM</sup> instead of the usual dial tone. Through VoiceXML, a markup language for voice applications based on eXtensible Markup Language (XML), Webley provides advanced voice access to Web content and services and offers customers a voice portal on a private label or branded basis. Additionally, Webley's pending acquisition of BuzMe.com, Inc. ("BuzMe.com") will, when completed, provide Webley with an advanced Busy/No Answer Call Forwarding ("BNACF") technology. This technology will enable Webley to provision its service on a customer's existing phone number. This capability powerfully differentiates Webley by enabling the Company to offer its services to customers without the need for a new or additional line, thereby allowing users to keep their current phone numbers. Currently, the residential telephone line is an important line of demarcation, as these lines cannot be ported to another carrier and most CLECs will not provide service to the home. This technology should increase the ease of implementation for carriers' target SOHO and residential customers.

**Company History**

Webley Systems is an outgrowth of Vail Systems, Inc. ("Vail"), a company founded in 1991 to provide enhanced computer telephony services to Fortune 1000 companies. Alex Kurganov, Webley's Chief Technology Officer, began concept development of Webley's products and services in August 1996 while employed by Vail. Webley was incorporated in February 1997 to create a fully functional prototype. Beginning in May 1997, Webley began limited beta testing of Webley's core products and services. By the end of 1997, Webley's service was the first and only fully developed advanced virtual assistant service built around unified messaging and ready for commercial deployment. During a five-month period of extensive beta testing in 1997 the Webley service was expanded and refined. In early 1998, the existing Webley management team was assembled, a comprehensive business strategy was developed and Webley began to offer its speech-controlled Unified Communications service to the public. In December 1999, Webley completed its separation from Vail. A beta test of Webley's local access product began in the fourth quarter of 1999 in Chicago and was followed by an expanded market test in Chicago in the first quarter of 2000. Webley also launched its first vertical market product offering, Webley M.D. in early 2000. In addition, EffectNet, through its license to use the Webley product, began to offer the Webley product to customers under the brand name CommuniKate<sup>TM</sup> in the fall of 2000. (See "Recent Transactions") Efforts to further expand the technology and products as well as Company personnel and infrastructure, particularly in the engineering group, continued throughout 2000.

In July 1998, Webley secured its first round of financing and issued its Series A Preferred to Patricof & Co. Ventures, which was followed by the Company's sale of Series B Preferred in August 1999 and April 2000 to Forstmann Little & Co. and CSK Ventures, Inc. as well as AOL, Net2Phone and others. In late 2000 and early 2001, Webley began discussions with BuzMe.com and EffectNet regarding their possible acquisition by Webley. These discussions have led to Webley entering into definitive agreements for the acquisition of both BuzMe.com and EffectNet. Webley anticipates that the acquisitions of BuzMe.com and EffectNet will be finalized contemporaneously with the closing of the Offering. (See "Recent Transactions")

Salomon Smith Barney

20

**CONFIDENTIAL PH 00446****A 02427**



**Confidential Private Placement Memorandum****Webley Systems, Inc.****Strategy**

Webley Systems intends to be the leading provider of speech-enabled Unified Communications software platforms to carriers, enterprises and residential users. Key elements of the Company's strategy include:

*Increase Unified Communications Market Penetration*

Webley believes that it has established a leading technology position in the Unified Communications industry. Webley has established its Unified Communications products with leading telephony and Internet players and is utilizing these channels to further the market awareness and demand for Unified Communications. The largest communications service providers, including IXCs, ILECs, CLECs, wireless service providers and ASPs as well as IP-based convergent service providers will continue to be a growing distribution channel for the Company. These providers either have large installed customer bases, which will enable Webley to achieve higher rates of service adoption at a lower cost of acquisition, or are investing in the next generation of networks and will be of increasing importance to Webley as they ramp their customer bases. Webley's pending acquisition of EffectNet, its largest distribution channel partner, will, when completed, continue to further the market penetration of various branded or private label Webley offerings. Webley is in the process of increasing investment and focus on direct service marketing as a result of cost effective local access availability in a growing number of U.S. metro markets and the availability of BNACF provisioning, through the Company's pending acquisition of BuzMe.com. BNACF capabilities will allow Webley and its carrier customers and distribution partners to offer the Webley products over the primary line to the mass market (SOHO and residential) through the users' existing telephone numbers on a cost efficient basis. With the acceleration of Unified Communications adoption, Webley believes that it is in an excellent position to benefit from its channel strategies with pre-contracted access to large subscriber pools and further its market leadership through its partnerships and strategic alliances.

*Extend Webley Technology and Value-Added Services*

In order to stay competitive, Webley plans to continue to invest in research and development. Also, Webley intends to continue to extend its Unified Communications services by offering additional value-added services, such as SIP-enabled offerings and VoiceXML services. With an IP-based environment supporting SIP, Webley can become the "always on" dial tone. Users of Webley's Unified Communications platform will be able to simply pick up the telephone and respond to Webley's request "What would you like to do?"<sup>TM</sup>. This will allow the Company's carrier customers to deploy Unified Communications over their next generation IP-based networks. VoiceXML will allow Webley to provide advanced voice access to Web content and services. These services are intended to extend Webley's relationships with current customers, to attract new customers and to allow it to differentiate itself in the Unified Communications market. Additionally, Webley's business development initiatives are intended to accelerate the acquisition of, or the formation of key strategic alliances, with enabling and complementary technologies judged to be critical to large-scale adoption patterns. Webley Systems will continue to partner with market leading technology companies such as 3Com, Aravox, Cisco Systems, dynamicsoft, Indicast, Dialogic (an Intel company), Level (3) Communications, Natural Microsystems, WorldCom, Nuance Communications, SpeechWorks and Pingtel, who provide certain infrastructure components of the Webley operating platform or are carrier partners. This will allow Webley to focus on its core value-added elements and source of competitive advantage – the applications themselves. Webley Systems believes that its technology can continue to form the foundation of a wide range of Unified Communications applications for which it intends to provide solutions.

*Target Increased Penetration of Enterprise Customers*

Webley believes that enterprise customers will be a very attractive market for the Company. Many corporations are seeking to migrate from their legacy, 'closed' system voicemail providers – which are rudimentary, single-functionality systems – to a much higher functioning communications product which offers advanced features such

Salomon Smith Barney

21

**CONFIDENTIAL PH 00447****A 02428**

Confidential Private Placement Memorandum

Webley Systems, Inc.

as unified messaging, voice control and activation, "Find Me, Follow Me" and an integrated message store on an open platform. Webley's products are particularly well suited to these customers since they offer ease of migration from legacy systems and an outsourced provisioning model. Currently, most unified messaging suppliers offer less functionality than Webley and do not sell to enterprises, preferring to focus on the carrier/service provider segment. This reflects their inability to offer an outsourced solution. Traditional messaging platform providers to the enterprise segment, such as Microsoft, Lotus and Novell, do not possess the type of real-time, integrated speech-enabled communications products that Webley offers. Telephony infrastructure providers to enterprises, such as Cisco or Lucent, have traditionally sold 'closed' systems (such as Octel) specific to their hardware.

*Pursue and Leverage Strategic Acquisitions*

Webley plans to make acquisitions that it believes will expand its technology, product development, or its customer base to further extend its leadership in Unified Communications. Webley has recently signed definitive agreements to acquire both EffectNet and BuzMe.com. Webley intends to leverage the acquisition of EffectNet to further penetrate the enterprise and carrier markets. This acquisition, when completed, will allow Webley to better serve and expand the combined customer base. The acquisition of BuzMe.com will, when completed, bring key strategic technology capability with the BNACF provisioning solution and allow Webley to effectively target the SOHO and residential markets. With the acquisition of BuzMe.com, Webley will have the ability to provision its services to customers' current phone numbers without the need for a new or additional line. Webley believes that there are other potential technologies and services that could complement the Webley platform and help to enhance the business model, but is not currently pursuing additional strategic acquisitions.

*Exploit Ability to Offer Hosted, Outsourced Service*

Webley's primary method for offering a provisioning service is through a hosted solution. There is little or no upfront capital investment and service deployment timetables are very compressed which enables speed-to-market. For most enterprise customers, a hosted, outsourced solution is ideal and Webley's capability in this respect helps differentiate the Company competitively. In the carrier arena, IP networks and SIP-enabled service providers will offer enhanced services via "remote" feature platforms that operate as if they were installed at the provider's facility. This key migration from a 'two-tier' telephony network, where applications are embedded in switches to a 'three-tier' distributed network, where value-added applications such as Webley may be delivered from any network point, is at the heart of Webley's value proposition to carriers. Webley hosted applications are charged on a platform capacity utilization basis, including either per minute, per port or per user. This revenue model is closely linked to the sale of increased functionality and additional value-added services, as well as to increased usage in minutes by end users. This model provides a recurring monthly revenue stream to Webley.

---

 Salomon Smith Barney

22

CONFIDENTIAL PH 00448

A 02429



**Confidential Private Placement Memorandum****Webley Systems, Inc.****Products and Services**

Webley's products were developed to provide: 1) carrier-grade quality and reliability, 2) ease-of-use functionality, 3) superior speech recognition technology, and 4) interoperability with existing and emerging communications transport networks and devices. Through considerable engineering effort, Webley has incorporated each one of these characteristics in developing its product offering. The Company's advanced virtual personal communications service allows Unified Communications systems to manage a user's inbound and outbound calling, messaging, conferencing and paging requirements. Webley integrates these services into a unified mailbox managed by its virtual assistant. The virtual assistant is a voice-activated, user guided, natural speech recognition interface that allows robust message retrieval and management functions over the phone and via the Web. The user's relationship with the intelligent virtual-agent is a key communications relationship of the user and, ultimately, a compelling feature for ensuring user loyalty and reducing customer churn. This product is marketed under the Webley<sup>TM</sup> brand name and the CommuniKate<sup>TM</sup> brand name (which Webley will acquire through the pending acquisition of EffectNet), as well as on a private label basis. In addition to the Company's virtual assistant product offering, Webley markets its voicemail and voice portal products, offers email hosting and ICW (Internet Call Waiting) and offers up to 32 party conference calling and PIM (Personal Information Management) contact calling services.

Webley believes that it is the only Unified Communications provider that delivers carrier-grade products, unparalleled ease-of-use and one of the most advanced speech recognition technologies available today. Webley is continually expanding its interoperability with manufacturers of messaging and communications devices to meet the needs of end users of the Company's products. Additionally, Webley is dedicated to meeting the needs of next generation network standards and protocols to continue to enhance the Company's products and services. For example, Webley's SIP-enabled IP platform demonstrates the Company's ability to integrate with new transport networks. As SIP-enabled public VoIP networks and SIP/IP phones become available, SIP telephone calls will originate and terminate from/to IP addresses embedded in SIP phones. Webley intends to commercially deploy its SIP platform in 3Q 2001. The SIP platform will support all standard IP-based devices and VoIP protocols. Any user who has an IP phone provisioned with Webley's services will have "always on" dial tone which will be replaced with Webley's question "What would you like to do?"<sup>TM</sup>.

***Webley Products: Features & Functionality***

Webley believes that its products provide the most complete set of features among all currently available Unified Communications solutions. Webley's technology currently provides for over 200 core features or commands that, when coupled with the utility of the natural speech interface, become over 1,000 dynamic feature sets. Webley is able to quickly and economically add or modify features to meet broad-based user demand and the customized needs of particular user groups. This feature set flexibility supports efficient customization and permits Webley to offer unique versions of its service to individual, corporate or group users and specialized users within selected vertical markets, such as doctors, lawyers and realtors. The individual user has a standalone single mailbox service that is accessed directly by a single telephone number. The corporate or group user has a single number that acts as a virtual PBX serving multiple mailboxes with the full range of Webley features and functionality. This corporate Webley offering also provides complete group messaging features.

Salomon Smith Barney

23

**CONFIDENTIAL PH 00449****A 02430**

**Confidential Private Placement Memorandum****Webley Systems, Inc.**

The following table describes key features of Webley's virtual assistant product:

<b>Feature</b>	<b>Description</b>
<b>One Contact</b>	The user can use a single personal contact number that replaces multiple cell, home, office and fax numbers, which may be in the form of either a toll-free (800) number or an existing "local" number of the customer or business.
<b>Voice Activation</b>	Sophisticated natural speech recognition software enables the user to verbally access the complete functionality of the system. The same functionality is available through DTMF (touch-tone) commands and Web-based access through the user's personal universal mailbox.
<b>Call Answering</b>	Webley provides a broad range of automated call reception options including voicemail, customized call forwarding, simultaneously call blasting, whispered call waiting to allow call screening, automatic call return and customized routing for specific inbound calls faxes and emails.
<b>Email Management</b>	Text-to-speech capabilities enable phone access to email messages and allows the provision of advanced email notification and forwarding features. Users can also create and reply to emails by phone with Webley's speech recognition functionality.
<b>Fax Management</b>	Fax notification, forwarding and routing capabilities allow the user to access faxes on any targeted fax machine or computer.
<b>Contact Management</b>	Up to 2,000 contacts may be downloaded from most PIM programs and PDA devices, including Palm, directly into Webley using Webley's proprietary software.
<b>Conference Calling</b>	Webley's product can be commanded to create pre-scheduled or "on-the-fly" conference calls of up to 32 participants and has the ability to add or drop participants during the call. From the user's personal unified mailbox, a conference manager's applet permits online dialing to set-up, add, delete or mute calls in addition to real-time monitoring and management of conference call activity.
<b>Outbound Calling</b>	Webley users can place outbound calls by speaking the name from their address book, speaking the phone number, country name, saying 'return the call' after listening to voicemail or email.
<b>Web Access</b>	All of Webley's features are also accessible through a personal, secure website, including voicemails (stored as voice attachments), emails and faxes. Internet access is provided to subscribers through a secure (SSL) connection to their personal Web page. Through the website, users can modify their personal information, listen to messages via streaming audio, view and forward faxes, set-up and control conference calls, create and handle contact lists.
<b>Internet Communication Features</b>	Internet call waiting allows subscribers to receive and respond to PSTN calls while online without disconnecting or using another PSTN line—eliminating the need for multiple PSTN lines. This is particularly attractive to the SOHO and residential markets.
<b>Instant Messaging</b>	Instant messaging bridges the telephony world to the online world by allowing telephony users to determine who among their contacts are online, communicate with their online contacts via audio clips delivered to PCs and wireless devices with audio players and by allowing the online users to acknowledge and respond to the telephony user via text-to-speech.
<b>Voice Portal</b>	Webley's communications platform seamlessly integrates Indicast voice portal functionality. Audio content from over 1,000 topics is personalized for users. Voice browsing of Internet content includes weather, news, sports, traffic, stock quotes and information, flight schedules, yellow page directory, and other popular content demand.
<b>Interoperability</b>	Webley products seamlessly interoperate with standard soft switches and media gateways interfacing with a variety of environments such as PSTN/SS7, cellular or data carrier networks and network management systems, legacy voicemail systems through VPIM, or inter-vendor messaging protocol and SMS (short messaging system) protocols.

Salomon Smith Barney

24

CONFIDENTIAL PH 00450

A 02431

Confidential Private Placement MemorandumWebley Systems, Inc.**Sales and Marketing***Sales and Marketing Strategy Overview*

Webley's sales and marketing efforts are focused on a number of specific, high potential demographics, including power users (business people, information workers and customer-facing staff), business travelers, small businesses and residential segments. Webley uses the direct-to-subscriber channel (which includes selected vertical markets such as Webley M.D. and the recently developed Webley Realtor and Webley Esquire) as well as indirect, partnership-based marketing and business development channels to acquire new customers. Webley and EffectNet have focused their efforts to date on establishing powerful strategic distribution partnerships with some of the largest communications service providers including carriers such as AT&T, CLECs such as Intermedia and IP-based convergent service telecommunications companies such as WorldCom. Webley's strategic partnerships are intended to afford the Company distribution channels that allow for deep and broad penetration of its services in a highly cost effective manner.

The Company's revenue model is substantially based on generating ongoing, recurring, per user subscription revenue streams. In the case of service providers, the Webley hosted solution is integrated with the provider via direct network connections. The negotiated license fee structure varies but is based on the number of active user "mailboxes" and volume of usage throughput on the platform; some deals include an element of revenue sharing. Pricing for Webley's branded services, marketed directly to users, includes a monthly service fee combined with a per minute charge for calls made and received. Users access Webley servers directly through network connections provided by the Company.

*Private Labeled Service Distribution*

Webley has marketed to most major communications service providers through its national account sales force since 1998. Many service providers recognize the strategic value in Unified Communications as an excellent vehicle to "bundle" a range of services together. These providers are able to address this market opportunity by creating simple, full service, volume discounted packages through a private label service powered by the Webley platform. For example, Intermedia is bundling a private labeled Webley service within its bundled *Intermedia One* service package. Webley has found that virtually every service provider is considering Unified Communications and is actively evaluating their service delivery options. The large majority of providers are focused on a "rent" versus "buy" solution. In the case of complex Unified Communications services, particularly speech-enabled services, the lead times and expense to develop and maintain solutions in-house are very complex from an implementation and maintenance standpoint. Therefore, a robust and scalable private label solution makes the most sense for these providers.

*Private Label Selling Propositions*

In the private label channel, Webley is positioned as the one of the most flexible, fully featured and lowest cost scalable solutions.

- **Lowest Cost/Lowest Risk Solution.** The negotiated subscriber fee structure varies but is based on the number of active users "mailboxes" and the volume of usage throughput on the platform. Some transactions include an element of revenue sharing. Webley interconnects with the provider to host their applications and accepts responsibility for maintaining a negotiated quality of service. The Webley service requires little to no upfront or ongoing capital expenditures on the part of the service provider, which is in sharp contrast to the model offered by the traditional vendor where the provider is expected to front substantial hardware and software costs.

---

 Salomon Smith Barney

25

CONFIDENTIAL PH 00451

A 02432

**Confidential Private Placement Memorandum****Webley Systems, Inc.**

- *Fully Featured, Flexible Integration.* Webley positions itself as a strategic product development resource. Service providers want to customize the offering, market the service under their own brand, make changes as market conditions change and achieve speed-to-market. Webley's service offering has been designed to satisfy these requirements. Webley's applications are built on a separate level from the voice prompts and Web interface so that any reasonable private labeling can be accomplished as a regular course of action. Webley also allows the provider to pick and choose from the applications set so that they can build targeted products for specific segments of their markets. Most integration and modifications can be accomplished in 60 days by Webley Systems compared to the 18-month switch feature load cycle that many providers are familiar with.
- *Private Labeled and Customized.* Webley's strategy is to present the entire spectrum of features and capabilities to the service provider in order to position itself as the most technically advanced, scalable and competent company in the space. Once the provider's specific market goals and segment targets are known, Webley will make a proposal to bundle the features that are most relevant. Webley offers to private label both the Web interface and to implement special voice talent to enable the provider to set their service apart. Again, Webley can implement this quickly as the applications and the user interfaces are separate. This aspect of Webley's service provider offering has a high level of appeal and, for the time being, the extent of Webley's capability gives it a competitive advantage in this important domain.
- *Service and Support.* In many cases, the service provider's ability to launch new services quickly is limited by their billing, customer service systems and procedures. Webley can provide service and support for providers encumbered by legacy support systems or providers with underdeveloped systems. Webley offers a range of customer support services including tier 2 escalation support for the provider's service organization as well as all types of pre-prepared training materials. Webley is also prepared to perform direct first level customer service for the launch phase until the partner can implement procedure upgrades. In terms of billing, Webley is fully capable of interfacing with most systems environments so that call detail and charging information can be fed directly into the service provider's core billing system. The objective of these initiatives is to eliminate as many barriers to implementation as possible so that the partner gets to market quickly and Webley generates licensing revenue.

*Direct to End User Strategy*

Webley's direct marketing plans, which will be significantly enhanced with its pending acquisitions of EffectNet and BuzMe.com, target two main areas: the enterprise and the mass market.

The upper end of Webley's target enterprise market is defined as businesses that prefer to host and manage their services on premise. Webley's other business customers will be provisioned via 1) number porting, 2) new local number (via the CLEC partner), or 3) DSL. Webley's ability to provision to the local phone number is a key point of differentiation. In 2000, Webley launched local service in the Chicago market using number portability and new local numbers. This was the first service of its kind in the market and was targeted at the small to mid-sized business market with a focus on the real estate vertical market, due to the high level of appeal the service has for these communications-centric users. The service provided a corporate "virtual PBX" and was positioned as a phone system replacement service. Due to the success of this offering, Webley plans to launch local service in several other markets, focusing primarily on a direct sales agent approach, similar to the Company's rollout in Chicago.

The strategic acquisition of EffectNet, a third party ASP provider of the Webley product under the CommuniKate™ brand, will strengthen the Company's direct marketing efforts by giving it greater integration with its largest direct sales channel partner. EffectNet has achieved good traction at both the enterprise and carrier level, including significant penetration of the MLM (multi-level marketing organization) market with customers such as Quixtar (Amway). The acquisition, when completed, will allow Webley to better serve and expand the combined customer base and also provide synergies on the servicing and hosting of its products.

---

Salomon Smith Barney

26

CONFIDENTIAL PH 00452

A 02433

Confidential Private Placement Memorandum

Webley Systems, Inc.

The mass market is defined as residential users and the portion of businesses that utilize a telephone line considered by the telephone company to be residential line (i.e., SOHO and telecommuters). The residential telephone line is an important line of market demarcation as these lines cannot be ported to another carrier and most CLECs will not provide service to the home. This market will be served by BNACF so the consumer can keep their existing telephone number and calls requiring Unified Communications services are automatically forwarded to Webley's servers through the local telephone network. Webley's acquisition of BuzMe.com, when completed, will provide the Company with a robust BNACF provisioning capability covering about 80% of all U.S./Canadian households.

Webley's service, featuring network voicemail, basic "Find Me" call forwarding, and Internet Call Waiting (ICW), has functionality that is well-suited for the residential/SOHO market. The service is priced under \$10/month and is positioned as "enhanced voicemail with Internet Call Waiting". At the under \$10 price point, the service is better and less expensive than standard RBOC network voicemail. Less than 12% of residences buy this RBOC service today so there is a significant untapped market potential. ICW is ideally suited for single line residences that cannot accept incoming calls when the line is being used for Internet access. With ICW, the customer receives an instant-message, real-time call waiting notification with caller ID. The online customer can choose to disconnect the online connection to accept the call, send the call to voicemail or to forward the call to another phone. Beyond the benefit of control that this service gives to the user, it also saves the expense of having an additional telephone line installed. This service is operated by touch-tone command off the Webley server farm. Webley intends to introduce a premium "multi-user" service at the end of 2001. Webley intends to price this multi-user service under \$12 and feature private mailboxes for each family member, intra-family message forwarding and broadcasting, contact list-based dialing and speech recognition in addition to all the features in the basic service. This service will be operated off the Webley SIP server network.

Last year, Webley introduced a promotional service called HearMyMail to develop its online/direct response marketing knowledge and to create a base of customers to upgrade to pay service. This campaign demonstrated that levels of over 3,000 registrations per day could be achieved. Accordingly, online affiliate marketing will be the cornerstone for mass Unified Communications marketing. In addition, Webley intends to launch a customer referral marketing strategy based on the successful telephony "Friends and Family" programs. Members of Webley's marketing team were directly involved in the design of the original Friends and Family program. This type of viral marketing program should drive higher volumes of users than could be accomplished by online direct response marketing alone.

**Technology***Webley's Technology Overview*

The Webley communications platform was designed around an open architecture in order to efficiently integrate the latest advances in any component system while preserving the fundamental integrity of the Webley product. To ensure carrier quality and zero-fault tolerance service, Webley utilizes a distributed architecture that provides superior redundancy and virtually eliminates service outages due to hardware failure. The switching platform itself has a proven track record, reliably processing millions of calls monthly over the last five years. Operating from a central location, the Webley communications platform is a highly scalable hosted solution.

The Webley speech-enabled media-switching platform is carrier-grade, scalable, robust and flexible, with no single point of failure. A rich Application Programming Interface (API) enables new features to be quickly developed and deployed on the platform. The Company licenses and incorporates market leading technologies in the areas of text-to-speech, speech recognition and Internet protocols in order to provide superior performance and an easy-to-use interface. For example, Webley has partnered with Nuance Communications to license their speech recognition engine and dynamicsoft for their next generation SIP platform. Webley's technology leverages off the growth in open systems and protocols and encourages applications development through its API.

Salomon Smith Barney

27

CONFIDENTIAL PH 00453

A 02434



**Confidential Private Placement Memorandum****Webley Systems, Inc.**

The following table describes some of the technological characteristics of Webley's Unified Communications platform:

Characteristic	Description
Device agnostic	Webley technology architecture, which links communications devices with all media through either voice or Web user interfaces, is designed to be device agnostic and provides easy ways of integrating any real or virtual device interfacing protocols, such as telephone, fax, pager, alpha-pager, WAP-enabled PCS phone, VoIP client, Palm Pilot or set-top box. Webley technology deals with device independent information properties like class, address, name, format and reply while at the lower, device-specific level a software object is built to map generic information properties to the device properties.
Platform agnostic	Webley's core technology has been designed to be platform agnostic with regards to any proprietary operating system, hardware, database engine, or speech platform. Only lower level layers of the technology may be platform dependent. Webley can be ported to most current operating systems including UNIX, Windows NT, Linux and Solaris and can use any hardware platform, such as Intel, SPARC or RISC, given the availability of the basic IP networking, speech, voice and database support.
Network transport agnostic	The same devices can be accessed via different transport mechanisms. For example, an alpha message can be sent to a pager via email or via SMS; a phone call can be placed over PSTN, VoIP or combination of VoIP and PSTN; a fax can be sent over PSTN or FoIP (Fax over IP). Webley can easily support any required transport mechanisms based on such considerations as partnering, carrier network designs, cost and time-to-market.
Application agnostic	The Webley media switching platform, as opposed to the Webley Virtual Assistant Application, can and is being used for virtually any communications centric application known today. Unlike existing communications platforms and virtual assistant implementations that operate as 'closed' systems, there is nothing in the Webley platform that is application specific. Webley is an applications agnostic platform utilizing an open architecture to ensure the best services, features and enhancements.
Protocol agnostic	Webley is committed to supporting all standard protocols used in communications today including next generation IP solutions. The Webley platform implements protocol independence similar to device and transport transparency described above by building a separate object or a gateway for every specific protocol. This allows any application built on the platform to be protocol agnostic, by definition. For example, when the user says, "check my email", the application invoking this action has no knowledge of the type of email protocol used by the user. It can be POP3, IMAP4 or AOL, which is handled by the lower level, non-application platform layer.

**Media Conversion and Notification**

With the current release of Webley's platform the following media conversions are supported:

- Email to voice: read email header and content over the phone
- Voice to email: receive voicemail as a Real Audio or MP3 email attachment. Other audio formats can be supported such as WAV, AU and GSM
- Fax to email: forward faxes to email or a contact's email as a TIFF attachment (PDF format is also supported); broadcast faxes to email lists by speaking the list name
- Email to fax: forward email to any fax by speaking or entering the phone number
- Email to page: Webley sends notification to alpha pagers via email
- Voice to page: Webley can be asked to transfer subscriber's inbound calls to a pager number (operator destination with no call screening employed)

Salomon Smith Barney

28

**CONFIDENTIAL PH 00454****A 02435**



**Confidential Private Placement Memorandum****Webley Systems, Inc.**

Currently, Webley's products notify subscribers when a voice message or a fax is received in the mailbox and the notification option is turned on. A notification can also be sent to an alpha or a numeric pager and/or a subscriber's personal email address. In all cases, the voice or fax code and the message originator's caller ID is sent in the notification message. An alphanumeric or an email notification will also contain the message size and the caller name if the caller ID matches any of the subscriber's contact phone numbers.

*Technology Interfaces*

Webley's technology supports POP3, AOL and IMAP4 based client access to email anywhere on the Internet, Web-based access to voicemail using Real Audio or MP3 streaming, Web-based access to faxes stored in TIFF or PDF format using any standard image viewer and, of course, phone-based access to voicemail, email and faxes. It is intended that Webley products will read fax content over the phone using OCR technology in future releases.

The Webley media-switching platform is comprised of standard hardware and software components. The following list highlights the primary off-the-shelf components used:

- Intel Pentium III or Sun SPARC based systems serving as media switching servers
- Natural Micro Systems cPCI or PCI-based DSP hardware and software
- UNIX and Linux OS
- Sybase Adaptive and Replication Server technology
- Apache Web Server with SSL layer
- Cisco media gateways and routers
- Nuance Speech Recognition Engine

The database and the storage servers use RAID5 technology and hot-swappable fast SCSI hard drives to ensure redundancy. The platform successfully integrates multiple communications technologies such as VoIP, SIP, WAP/WML/HDML and XML, among others, without using any traditional telephone switching equipment. The proprietary API allows quick and easy development of some of the most advanced media-switching applications available today.

The Webley media switching platform is designed as a distributed, server farm-based architecture, where the user's service is distributed throughout the network. In the event of a failure, with a distributed architecture, an outage in one node simply means the call is lost and not the customer's entire service. The next call is automatically directed to another operational node. High performance redundant database servers serve all nodes in the network.

The platform can be scaled to any desired number of ports. On the carrier side, the individual subscriber phone numbers are provisioned to a single group that can span several sites. This type of provisioning is extremely flexible and is made possible by the distributed nature of the platform. With this approach, the customer's specific data resides only in the database server and in the storage servers, which are shared by clusters of identical media switching servers.

On the data side, there are at least two database servers available: one master and one or more warm backups being real-time replicas of the master. These database servers are built sufficiently redundant to provide high availability. On the software side, Webley technology includes a telephony hardware abstraction layer, a high-level CT API with remote object support, a POP3 and IMAP4 email API, a dynamic system configuration API, and distributed, efficient resource allocation services. The unmatched flexibility of the media-switching platform allows Webley's platform to do virtually anything with a telephone call. Each call is seen as simply a data transaction at the API level. Almost any telephony feature can be implemented on this platform in a very short timeframe.

---

Salomon Smith Barney

29

**CONFIDENTIAL PH 00455**

**A 02436**

**Confidential Private Placement Memorandum**

**Webley Systems, Inc.**

*SIP- Enabled IP Platform Developments*

Webley is migrating its full feature set from its PSTN-based Unified Communications platform to its new, pure IP-based media switching platform to support all standard IP-based devices and VoIP protocols. Webley expects to begin introducing the full range of products on an IP-based platform during 2001. This new, pure SIP/IP platform is in beta testing at the present time.

Voice prompt "dial tone" and speech-enabled Unified Communications services will be delivered to users via an "always on" IP connection to an IP phone. When the user picks up the IP phone, a connection will be made automatically to the Webley IP platform and the user will simply speak the command to access the desired service. Users can give out a single telephone number and direct Webley to terminate inbound calls to an IP phone device without requiring the caller to know the IP address. Calls to the same telephone number can be terminated on a wireless or conventional phone, based on a user's preferences. For outbound calls, users calling from SIP-based IP phones can enjoy the cost benefits of IP transport by picking up the phone to voice dial IP or PSTN destinations from their address book.

Webley plans to be the first to market with IP-based, natural speech driven enhanced services to be offered to partners on a private label basis. Webley Systems is partnering with market leading, enabling companies such as 3Com, Aravox, Cisco Systems, dynamicsoft, Indicast, Dialogic (an Intel company), Level (3) Communications, Natural Microsystems, Nuance Communications, SpeechWorks, Pingtel and WorldCom for its SIP initiative.

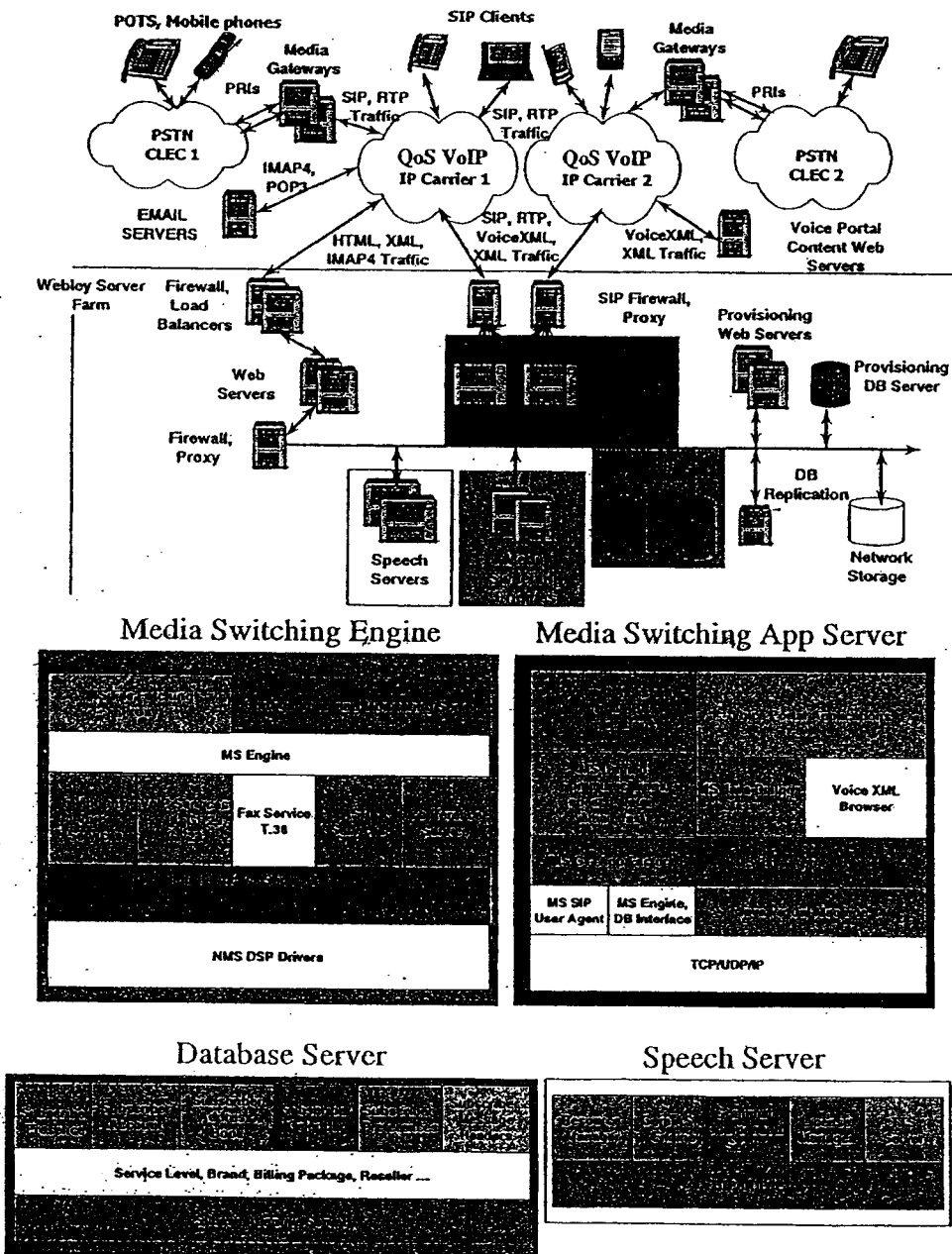
---

Salomon Smith Barney

30

**CONFIDENTIAL PH 00456**

**A 02437**

**Confidential Private Placement Memorandum****Webley Systems, Inc.***SIP Platform Technology and Architecture*

Salomon Smith Barney

31

CONFIDENTIAL PH 00457

A 02438

**Confidential Private Placement Memorandum**

Webley Systems, Inc.

**Customer Service and Support***Fulfillment*

The fulfillment process for the Webley branded product is extremely efficient. A new Webley user can subscribe over Webley's homepage at [www.webley.com](http://www.webley.com) and be immediately provisioned. The user's manual is available online with hot links available for audio streaming and TIFF imaging plug-ins that are necessary for online voicemail and fax retrieval, respectively. Additionally, new users can be immediately provisioned directly over the telephone by customer service. A ten-minute personal Webley trainer is currently being implemented for all new subscribers. This training, conducted at the user's convenience, provides side-by-side coaching using examples of each of Webley's features to help ensure a positive customer experience. Generally, Webley has no operational responsibility for the fulfillment of private labeled users.

*Post-Sale Customer Care*

Webley routinely conducts follow-up evaluations through the Company's Customer Survey Group for all new users to address any questions or concerns they may have. The Customer Survey group also conducts periodic canvassing of existing users to evaluate customer satisfaction. In addition, Webley's call center and NOC provide general and technical customer service 24 hours a day, 7 days a week. With the acquisition of EffectNet, Webley will be adding approximately 80 additional customer service representatives from EffectNet's Phoenix facility which also operates 24 by 7.

First level Customer Care support for private label users is generally the responsibility of the private label service provider. Second level Customer Care, if provided by Webley, is on a fee-per-call basis. Third level, or NOC, service is provided by Webley without charge.

*Billing*

Webley currently bills its Webley branded customers by credit card, in the case of personal accounts, or by direct invoice for corporate accounts. Account information and usage activity is systematically tracked, rated and provided to a billing vendor where the accounts are invoiced. The use of credit cards mitigates collection difficulties for individual accounts. However, Webley still performs credit analysis. Webley is currently introducing electronic billing over the user's personal Web page.

Webley does not assume billing or collection responsibility for private label users. The service providers are batch billed internally by Webley and detailed call records are delivered to the service provider electronically.

**Competition**

Because Unified Communications is a new market segment that is designed to consolidate other methods of messaging, Webley competes with worldwide point solution providers of voicemail, fax, and email services and products. Each of these markets on a stand-alone basis is highly competitive and has numerous service and product providers.

Currently, the personal communications industry is highly fragmented with many competitors each providing different communications platforms. Competition within advanced virtual assistant services and unified messaging comes from two basic groups: (i) software companies and (ii) Customer Premise Equipment (CPE) manufacturers. Service providers are evaluated on a feature-by-feature basis. Equipment suppliers are significant stakeholders in the emerging unified messaging market, but no single equipment vendor can currently meet all of a service provider's requirements.

Salomon Smith Barney

CONFIDENTIAL PH 00458

**Confidential Private Placement Memorandum****Webley Systems, Inc.**

Although the Company currently has direct competitors for some of its services, Webley Systems is not aware of any service provider that currently offers a suite of Unified Communications services that directly competes with its own. The Company believes this lack of direct competition may change. Competition in Unified Communications may come from such companies as j2 Global Communications, Openwave Systems, BeVocal, TellMe Networks, Call Sciences, Cisco Systems, Centigram Communications, Comverse, General Magic, iBasis, I-Link, IPeria, Linx Communications, Premiere Technologies (Orchestrate) and Wildfire Communications. However, these companies' offerings currently have fewer functionalities and features than the Webley suite of services.

Webley believes that it competes favorably with respect to the following factors:

- Product features and functionality
- Next generation technology architecture
- Pricing and cost savings for customers
- Customer support

Webley believes it can compete effectively in the Unified Communications marketplace because it offers the most full-featured platform and products available, with enhanced features, call control and speech recognition. The Company has devoted considerable engineering resources to developing its products and the Company currently believes that it is leading its current and potential competitors with respect to these factors.

**Intellectual Property**

Webley relies on patent protection, as well as a combination of copyright and trademark laws, trade secrets, confidentiality provisions and other contractual provisions, to protect its proprietary technology and property rights. Webley has filed 10 U.S. and 5 international patent applications, which are centered on the Company's core software and platform hardware integration. The technology relating to the Company's Unified Communications and platform related software are largely trade secrets. Webley generally enters into confidentiality and nondisclosure agreements with its employees, consultants, prospective customers, licensees, and corporate partners. In addition, Webley controls access to and distribution of its software, documentation, and other proprietary information. Except for certain limited escrow arrangements, Webley does not provide third parties with access to the source code for Webley's products.

**Research and Development**

The market for Webley's services is characterized by rapid change and technological advances that require ongoing expenditures for research and development and the timely introduction of new services and enhancements of existing services. Webley Systems is devoting significant resources to the development of enhancements to its existing services. Webley's research and development expenditures was \$4.9 million for the fiscal year ended December 31, 2000 and are projected to be \$7.1 million and \$11.4 million for fiscal years ended December 31, 2001 and 2002. The projections for research and development expenses assume the successful acquisitions of both BuzMe.com and EffectNet.

**Facilities**

The Company leases approximately 22,500 square feet of office space in Deerfield, Illinois, which houses approximately 85% of the Company's employees and is the center for engineering and operations and has a lease expiration of December 31, 2004. The facility includes specially equipped areas for lab space and the network operations center (NOC). The lease term ends December 31, 2004. The Company headquarters are located in Washington, DC. The Company leases approximately 14,500 square feet of office space, which primarily houses members of the executive staff, along with some administrative, business development, and sales staff. The lease term ends November 10, 2002. The Company has a lease for space it no longer occupies in Schaumburg, Illinois.

---

Salomon Smith Barney

**CONFIDENTIAL PH 00459**

**Confidential Private Placement Memorandum****Webley Systems, Inc.**

The Company has sublet this space to a tenant for the term of the lease. The Schaumburg lease expires July 31, 2002 and is completely offset by a sublease agreement. The proposed acquisitions of EffectNet and BuzMe.com will, when completed, add an additional 17,000 square feet in Phoenix, AZ, with the option to move the current business to an adjacent facility with 25,000 square feet, as well as 4,500 square feet in Palo Alto, CA, with lease expirations of April 1, 2003 and June 29, 2002, respectively.

**Employees**

The Company invested significant resources in building its workforce to maintain a competitive position and accommodate significant growth. Webley had 151 full-time employees as of December 31, 2000. EffectNet and BuzMe.com currently have approximately 115 and 11 full-time employees, respectively. The following is a breakdown by functional area of the Company's employees:

	December 31, 2000
Administrative and Operations	19
Engineering	74
Research & Development	2
Business Development	5
Sales and Marketing	11
Direct Sales	13
Customer Service	27
Total	151

The Company believes that its relations with its employees are good.

**Legal**

The Company is not party to any material litigation.

---

 Salomon Smith Barney

34

**CONFIDENTIAL PH 00460****A 02441**



Confidential Private Placement Memorandum

Webley Systems, Inc.

**RECENT TRANSACTIONS**

Webley has recently executed definitive agreements for two potential acquisitions - EffectNet, Inc. and BuzMe.com, Inc. In order to optimize the tax structure for the BuzMe.com and EffectNet acquisitions, the Company will adopt a new holding company organization. The new holding company, Webley Corporation, has formed three wholly owned subsidiaries. The acquisitions of EffectNet and BuzMe.com will occur contemporaneously via reverse subsidiary mergers. At the same time, the Company will become a wholly owned subsidiary of Webley Corporation, also via a reverse subsidiary merger. As a result of these transactions (the "Transactions"), the Company, EffectNet and BuzMe.com each will become a wholly owned subsidiary of Webley Corporation, which will thereupon change its name to "Webley Systems, Inc."

It is contemplated that the issuance of stock in Webley Corporation pursuant to the Transactions will be exempt from registration under section 3(a)(10) of the Securities Act of 1933 (the "Act"). As part of the exemption pursuant to section 3(a)(10), a fairness hearing will be held before the California Department of Corporations. Following the Transactions and assuming that the provisions of all other agreements restricting the sale of such securities are followed, the securities issued pursuant to the California fairness hearing may be freely resold by any holder of such securities who (i) was not an affiliate of any party to the Transactions prior to the consummation of the Transactions and (ii) is not an affiliate of Webley Corporation following the Transactions.

*EffectNet, Inc.*

EffectNet, through its license to use the Webley product, offers it to the public under the brand name CommuniKate™. In the fall of 2000, EffectNet launched its Unified Communications service to its initial customer, World Wide Group L.L.C., which maintains a distribution system of "Amway" products through its team of independent business owners. EffectNet also operates an ISP/email hosting service with company-owned POPs in Vancouver and Hawaii. The strategic rationale for the EffectNet acquisition is greater direct customer revenue control and an integrated technology/revenue model to better serve and expand the Webley and EffectNet customer bases. Pre-acquisition forecasted 2001 Webley revenue is projected to be approximately \$25 million, of which approximately \$15 million is derived from EffectNet. Post-acquisition of EffectNet, the 2001 Webley revenue is projected to increase to approximately \$40 million. (See Appendix: Financial Assumptions and Projections).

EffectNet was originally formed in 1998 to provide dial-up Internet access service, however, in 1999 it transitioned to begin offering CommuniKate™. EffectNet has completed two rounds of financing and its major stockholders include: founders Taj Reneau, Darius Reneau and Brad Steinmeyer, and investors World Wide Ventures and Zwiss A.V.V. EffectNet currently employs approximately 115 people and is located in Phoenix, AZ.

The definitive agreement with EffectNet was executed on March 22, 2001 and consideration consists of stock. In addition, Webley has an obligation to purchase up to \$1,000,000 of the shares of Webley stock issued to the EffectNet stockholders at a price per share equal to the price per share in this Offering, provided that this Offering results in at least \$20 million in proceeds to Webley. The definitive agreement provides that the stockholders of EffectNet shall collectively receive 36% of the outstanding stock of Webley Corporation, subject to dilution for the BuzMe.com acquisition and this Offering. Following (i) the acquisition of BuzMe.com and Webley Systems by Webley Corporation and (ii) the issuance of the Series C Preferred Stock pursuant to this Offering, there shall be an adjustment such that the stockholders of EffectNet shall own not less than 27.5% of the outstanding stock of Webley Corporation. In addition to standard conditions to close the acquisition, it is a condition to EffectNet's obligation to close that (i) EffectNet be satisfied that the acquisition of BuzMe.com has or will close, (ii) a non-employee designee of EffectNet be elected to the Board of Directors of Webley Corporation and a majority in interest of the stockholders of Webley Corporation shall have entered into an agreement to vote to elect such designee (or such person designated by such designee) to the Board of Webley Corporation until a qualified public offering and (iii) employment agreements shall be executed with certain employees of EffectNet.

Salomon Smith Barney

CONFIDENTIAL PH 00461

**Confidential Private Placement Memorandum****Webley Systems, Inc.**

The officers and directors of EffectNet are set forth below:

Name	Age	Title	Previous Experience
Taj Reneau	30	Chairman of the Board and Chief Executive Officer	Alcatel and QUALCOMM
Darius Reneau	30	President, Chief Operating Officer and Director	Fujitsu, EDS and Hewlett-Packard
Jim Calandra	36	Chief Financial Officer	Ernst & Young and Leonische Derahtwerke
Jay Jessup	45	EVP – Business Development	Grubb & Elliss Consulting, CB Richard Ellis and KPMG Peat Marwick
Deborah Anbinder	45	VP – Customer Care	DHL, Ameritech and Egghead Software
Brad Steinmeyer	28	VP – Partner Development and Director	Univance Corp., MCI/WorldCom and Wiltel

Name	Age	Title
Richard Davis	53	Director; CEO, World Wide Group
Michael Jackson	56	Director; Partner, Zwiss Ventures

**BuzMe.com, Inc.**

BuzMe.com possesses an advanced Busy/No Answer Call Forwarding ("BNACF") technology that is currently offered to the public through its website. The BNACF technology allows users of the service to screen and forward calls while online. Additionally, the BNACF technology will, when acquired by Webley, allow Webley to provision its service on customers' existing phone numbers. This capability will powerfully differentiate Webley by enabling the Company to offer its services to customers without the need for a new or additional phone line. The strategic rationale for this acquisition is a time-to-market advantage, the avoidance of resource disruptions of personnel and the expense associated with a Webley developed and deployed BNACF solution. Absent the BuzMe.com acquisition, Webley will negotiate BNACF services from other available providers or allocate and acquire the resources required to deploy a Webley BNACF solution.

BuzMe.com was formed in February 1999 as an outgrowth of RingCentral, Inc. a company that was formed to provide PC based phone, fax and email integration products. BuzMe.com has completed an offering of its Series A Preferred and is currently completing an offering of its Series B Preferred. BuzMe.com's major stockholders include: Rick Rasmussen, Vlad Vendrow, Geneva Venture Partners, WR Hambrecht, Vlad Shmunis, David Parker and Tom Colby. BuzMe.com has extensive service provider relationships. BuzMe.com has approximately 11 employees as well as approximately 25 contractors in Russia under consulting contracts. The Company's operations are primarily located in Palo Alto, CA.

The definitive agreement was executed on March 15, 2001 and consideration consists of all stock. The definitive agreement provides that the stockholders and any holder of a security or right convertible into stock of BuzMe.com shall collectively receive the greater of 52,350 shares or that number of shares equal to 7.4836% of the fully diluted shares of Webley Corporation prior to this offering and the EffectNet transaction. The consideration will be paid in Series D Preferred Stock of Webley Corporation. In addition to standard conditions to close the acquisition, Webley may terminate the agreement to acquire BuzMe.com if, at any time prior June 1, 2001, Webley determines that it is not satisfied with its due diligence findings.

---

Salomon Smith Barney

**CONFIDENTIAL PH 00462**

**Confidential Private Placement Memorandum****Webley Systems, Inc.****MANAGEMENT AND DIRECTORS****Executive Officers and Directors**

<b>Name</b>	<b>Title</b>	<b>Age</b>
Patricia Mathis	Chief Executive Officer and Director	60
Robert C. McConnell	Chief Financial Officer and General Counsel	51
Alex Kurganov	Chief Technology Officer	48
Susan Kelley	SVP, Sales and Distribution	52
Hal Poel	SVP, Marketing and Product Management	46
Gary Kalanj	SVP, Technology and Product Development	50
Michael M. Connors	Chairman	
Patricia M. Cloherty	Director	
Thomas H. Lister	Director	
Clifford M. Sobel	Director	
James Whitely	Director	
R. Scot Thomas	Director	
Eugene Levy	Director	

**Executive Officers**

*Patricia Mathis, Chief Executive Officer and Director*, joined Webley in January 1998 and is the Chief Executive Officer. She has played a principal role in developing the organization, including the recruitment of the current management team, the development of strategic planning and primary oversight over the infrastructure development. She serves on the Board of Directors of Webley and also founded the Mathis Group, a Washington based consulting group, which specializes in strategic planning, product assessment, evaluation and customer support for the telecommunications and electronics industries. Client of the Mathis Group included AT&T, Bell Atlantic, NYNEX, US West, MCI, US Sprint, Cellular One, Comsat, McCaw Cellular, Iridium, PRC, SAIC and American Personal Communications. The Mathis Group has also developed and deployed technology products in partnership with AT&T. Ms. Mathis is recognized as an expert on global networks and the related technologies associated with the global exchange of intellectual property documents, including emerging Internet standards and law. She has a multidiscipline graduate education in law and clinical psychology. Ms. Mathis has a BA from University of Texas and was also a Ph.D. candidate at Boston University.

*Robert C. McConnell, Chief Financial Officer*, joined the Company in October, 1997 as Chief Financial Officer and General Counsel. Prior to joining the Company, Mr. McConnell was President and Chief Operating Officer of Capital Management and Development Corporation, a diversified hospitality group headquartered in Washington, D.C. His experience includes senior positions with Cranston Securities, a national investment banking firm, general counsel of International Spike, an international manufacturing company and as a tax partner at Alexander Grant & Company, a national certified public accounting firm. Mr. McConnell is a CPA and an attorney. Mr. McConnell has a BS in Accounting and a JD from Indiana University.

*Alex Kurganov, Chief Technology Officer*, was a software system architect and developer for more than 20 years. In 1990 Mr. Kurganov built the UNIX-based computer telephony system for Dytel Corporation. He went on to design advanced software systems for Motorola, Interactive UNIX Corporation and Ardis. Mr. Kurganov led the development of the Webley technology while serving as CTO of Vail Systems, a leader in the IVR/Internet Enhanced Telephony industry. Mr. Kurganov has a degree in Electrical Engineering. Mr. Kurganov has a MS in

Salomon Smith Barney

**CONFIDENTIAL PH 00463**

**Confidential Private Placement Memorandum****Webley Systems, Inc.**

Computer Science from the Institute of Technical Cybernetics, Academy of Sciences and a BS in Electrical Engineering from Polytechnical Institute.

*Susan Kelley, SVP Sales and Distribution*, brings over 25 years of sales and marketing experience. She began her career in electronics and communications with Time Warner Cable as vice president for national sales. In 1986, she joined US Sprint as vice president of sales and developed Sprint's successful partnership and affinity marketing programs. She joined McCaw Cellular in 1991 and led their strategic marketing efforts for New York, Dallas and Kansas. For the two years prior to joining Webley she worked as a consultant for consumer distribution strategies at Sprint PCS and Nextel. Ms. Kelley has an ASc from Pierce University and an MBA from Simmons College in Boston.

*Hal Poel, SVP Product and Marketing Strategies*, brings an exceptional track record in telecommunications product development and implementation. His product development experience includes Time Warner Cable and Braun electronic products. At US Sprint, he was the architect of several innovative products, including the first voice-driven calling card, FonCard, introduced in 1988. He was also one of the leading innovators in the development of telecommunications products related to the deregulation of pay phones in America. He is highly experienced in personal numbering and switched and wireless convergence. He was a senior partner of the Carter Group for the last four years on the team that developed telecommunications strategies and products for several world market leaders in recently de-privatized marketplaces, including Australia, Canada, England and Germany. Mr. Poel has a BA from Dennison University.

*Gary Kalanj, SVP Technology and Product Development*, recently joined the Company after completing four General Manager assignments with Motorola. He is an expert in wireless, paging, networks, and software engineering. With more than 25 years of experience both domestically and internationally, he has worked in pure advanced R&D environments, as well as making a career of commercializing products and building organizations that deliver quality products on time. In addition to being an Electrical Engineer, Mr. Kalanj holds an MBA. Mr. Kalanj has a Bachelor's in Applied Sciences from the University of Waterloo, Ontario and an MBA from Wilfred Laurier University.

**Board Members**

*Michael M. Connors*, President Emeritus of AOL Technologies, is Chairman of the Webley Systems, Inc. Board of Directors. Connors served as the chief technical executive for America Online, Inc., the world's leading Internet service, for six years. He resigned that position in 1998 to become president emeritus at the AOL Technologies unit, and to join the board of the AOL Foundation, which develops programs to use the power of computer networks to improve the lives of families and children and empower the disadvantaged.

*Patricia M. Cloherty* is Special Limited Partner of Patricof & Co. Ventures, Inc., a New York-based private venture capital company that operates in six countries and has some \$6.0 billion under management. She is a prominent figure in the venture industry, and has served as past President and Chairman of the National Venture Capital Association. She is a member of the Council on Foreign Relations and was appointed by President Clinton in 1994 as Director of The U.S.-Russia Investment Fund, which she now chairs. She holds a B.A. from the San Francisco College for Women and M.A. and M.L.A. degrees from Columbia University.

*Thomas H. Lister* is a general partner of Forstmann Little & Co., a private investment firm that was founded in 1978. Prior to joining Forstmann Little, Tom worked in the Mergers & Acquisitions Dept. at Morgan Stanley from 1986 to 1989 and from 1991 to 1993. Tom graduated from the Harvard Business School in 1991 and was named a Baker Scholar and a Loeb Fellow for outstanding performance in finance. Tom graduated from Duke University in 1986 with a B.A. in Chemistry and Political Science.

---

Salomon Smith Barney

38

CONFIDENTIAL PH 00464

A 02445

**Confidential Private Placement Memorandum**

**Webley Systems, Inc.**

*Clifford M. Sobel* has been Chairman of Net2Phone since September 1997. Since 1994, Mr. Sobel has been Chairman and Chief Executive Officer of SJJ Investment Corp., which has invested in many companies in the Internet, cable, real estate and cosmetics industries. Prior to this, Mr. Sobel founded several companies in the design and manufacturing of retail interiors and themed environments, including DVMI, Bon-Art International and Bauchet International. These firms were sold in 1994 by Bear Sterns. Mr. Sobel has testified before Congress on foreign trade issues and, by Presidential appointment, served on the Holocaust Memorial Council in Washington, D.C.

*James Whiteley* is Chairman and President of Vail Systems. He has over 35 years of computer, telecommunications and business start-up experience. He founded Direct Marketing Technology, Inc., a pioneer in premise-based call processing equipment.

*R. Scot Thomas* is President of Experian Direct Tech and an angel investor in Webley. Experian offers a wide range of integrated direct marketing services.

*Eugene Levy* has been a consultant with the firm of Patricof & Co. Ventures, Inc. since 1981. He has over 30 years of experience in the management and design of high technology systems.

---

Salomon Smith Barney

39

CONFIDENTIAL PH 00465

A 02446